

Recording Prepaid Expenditures

Cash is often disbursed by LEAs for services or materials, a portion or all of which actually applies to a future fiscal period. The most common disbursement of this type is for insurance; the full premium is paid immediately but the coverage extends into future years. Expenditures for insurance and similar services extending over more than one accounting period may be allocated between or among accounting periods or accounted for as expenditures of the period of acquisition.

Assume, for example, that an LEA purchases a five-year insurance policy on July 1, 2001, for \$5,000. If the LEA treats the cost of this insurance policy as an expenditure of the period of acquisition, the following entry will be made:

<i>Date</i>	<i>Account</i>	<i>General Ledger</i>	<i>Debit</i>	<i>Credit</i>
7-1-01	9850	Expenditures	\$5,000.00	
	9110	Cash in County Treasury		\$5,000.00
To record the payment for a five-year insurance policy				

If, however, the LEA treats the cost of this insurance policy as a prepaid expenditure and allocates a portion of the cost to subsequent years, the following entry will be made in the year of acquisition:

<i>Date</i>	<i>Account</i>	<i>General Ledger</i>	<i>Debit</i>	<i>Credit</i>
7-1-01	9850	Expenditures	\$1,000.00	
	9220	Prepaid Expenditures	4,000.00	
	9110	Cash in County Treasury		\$5,000.00
To record the payment for a five-year insurance policy, one year of which applies to the current year				

At the end of the year, when the books are closed, the asset account Prepaid Expenditures is included with other ending balances and becomes a part of the beginning balance for the next year.

After the books are opened for the next year, it is necessary to determine whether all or a portion of Prepaid Expenditures applies to the current year. This amount must be charged to the appropriate expenditure account of the new year, leaving as a remainder in the asset account any amounts not yet applicable. These, in turn, must be carried over as Prepaid Expenditures to the next year. A good way to determine the amount to charge to a year other than the year in which the original cash disbursement was made is to prepare

a schedule of amounts and periods applicable at the time when the original cash disbursement is made, as shown in the following example:

Schedule of Prepaid Expenditures

Policy number	Carrier	Overall total	Analysis of total applying to each succeeding year			
			First year	Second year	Third year	Fourth year
		\$4,000.00	\$1,000.00	\$1,000.00	\$1,000.00	\$1,000.00

This schedule is retained for reference at the time of a future year's charge-off to ensure that the correct amounts are charged to each succeeding year in which a benefit is received. The schedule would be updated at the beginning of each year by reducing the control total by the amount of the first year succeeding, which is charged to expenditure, and by moving each figure in the next several columns one column to the left.

Charging off the portion applicable to a new year at the beginning of that year requires that a journal entry be made, with the debit charged to the appropriate expenditure account and the credit applied to Prepaid Expenditures. This entry should be one of the first entries made.

Another common example of prepaid expenditures is the payment of a fee for a teacher to attend a class that will be held during the next fiscal year. If the fee is paid in May of one year to reserve a place at a conference that will be held in the subsequent year, the charge is made to a prepaid account in the first year, to be expensed in the following year when the teacher attends the conference.

This procedure may create a timing problem if the conference is paid with a categorical subject to deferred revenues. A prepaid expenditure requires a reserve to the fund balance. Because there is not a fund balance for this type of categorical program, the reserve would generate a negative undesignated fund balance. The fee should be charged to an unrestricted resource and later expended against the grant itself at the time the conference is attended.

Reservation fee paid for a summer class to be held August 30, 2001, would appear as follows:

Date	Account	Debit	Credit
5-01-01	Prepaid Expenditures 01-0000-0-0000-0000-9330	\$450.00	
	Cash 01-0000-0-0000-0000-9110		\$450.00
To record payment of August registration for college training session			

<i>Date</i>	<i>Account</i>	<i>Debit</i>	<i>Credit</i>
8-30-01	Cash		
	01-0000-0-0000-0000-9110	\$450.00	
	Prepaid Expenditures		
	01-0000-0-0000-0000-9330		\$450.00
	Travel and Conference		
	01-3330-0-5710-1110-5200	\$450.00	
	Cash		
	01-3330-0-5001-0000-9110		\$450.00
	To reimburse the unrestricted resource and charge the conference expenditure to the Infant Discretionary Grant		

